[JOINT COMMITTEE PRINT]

ESTIMATES OF FEDERAL TAX EXPENDITURES FOR FISCAL YEARS 1995–1999

PREPARED FOR THE

COMMITTEE ON WAYS AND MEANS

AND THE

COMMITTEE ON FINANCE

BY THE STAFF OF THE

JOINT COMMITTEE ON TAXATION

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INTRODUCTION

This report[1] on tax expenditures for fiscal years 1995–1999 is prepared by the staff of the Joint Committee on Taxation ("Joint Committee staff") for the House Committee on Ways and Means and the Senate Committee on Finance. The report also is submitted to the House and Senate Committees on the Budget.

As in the case of earlier reports,[2] the estimates of tax expenditures in this report were prepared in cooperation with the staff of the Office of Tax Analysis in the Treasury Department ("the Treasury"). The Treasury published its estimates of tax expenditures for fiscal years 1993–1999 in the Administration's budgetary statement of February 1994.[3] The lists of tax expenditures in this Joint Committee staff report and the budgetary statement overlap considerably; the differences are discussed in Part I under the heading "Comparisons with Treasury".

The Joint Committee staff has made its estimates (as shown in Table 1) based on the provisions in tax law as enacted through December 31, 1993. Expired or repealed provisions are not listed unless they have continuing revenue effects that are associated with ongoing taxpayer activity. Proposed extensions or modifications of expiring provisions are not included until they have been enacted into law.

Part I of this report contains a discussion of the concept of tax expenditures, and is followed in Part II by a discussion of the measurement of tax expenditures. Estimates of tax expenditures for fiscal years 1995–1999 are presented in Table 1 in Part III. Table 2 shows the distribution of tax returns by income class, and Table 3 presents distributions of selected individual tax expenditures by income class.

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[1] This report may be cited as follows: Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 1995–1999* (JCS–6–94), November 9, 1994.

[2] Joint Committee on Taxation, *Estimates of Federal Tax Expenditures*, October 4, 1972, June 1, 1973, July 8, 1975, March 15, 1976, March 16, 1977, March 14, 1978, March 15, 1979, March 6, 1980, March 16, 1981, March 8, 1982, March 7, 1983, November 9, 1984, April 12, 1985, March 1, 1986, February 27, 1987, March 8, 1988, February 28, 1989, March 9, 1990, March 11, 1991, April 24, 1992, and April 22, 1993.

[3] Office of Management and Budget, "Tax Expenditures," *Budget of the United States Government: Analytical Perspectives, Fiscal Year 1995*, February 1994, pp. 53–78.

I. THE CONCEPT OF TAX EXPENDITURES

Overview

"Tax expenditures" are defined under the Congressional Budget and Impoundment Control Act of 1974 ("Budget Act of 1974") as reductions in individual and corporate income tax liabilities that result from special tax provisions or regulations that provide tax benefits to particular taxpayers. These special tax provisions can take the form of exclusions, credits, deductions, preferential tax rates, or deferrals of tax liability.

Special income tax provisions are referred to as tax expenditures because they are considered to be analogous to direct outlay programs, and the two can be viewed as alternative means of accomplishing similar budget policy objectives. Tax expenditures are most similar to those direct spending programs that have no spending limits, and that are available as entitlements to those who meet the statutory criteria established for the programs.[4]

Estimates of tax expenditures are prepared for use in budget analysis. They are a measure of the economic benefits that are provided through the tax laws to various groups of taxpayers and sectors of the economy. The estimates also may be useful in determining the relative merits of achieving specified public goals through tax benefits or direct outlays.

In this report, the Joint Committee staff follows the definition of tax expenditures that appears in the Budget Act of 1974: ". . . those revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption or deduction from gross income or which provide a special credit, a preferential rate of tax or a deferral of tax liability."[5] The legislative history of the Act indicates that tax expenditures are to be defined with reference to a normal income tax structure.

The Joint Committee staff has used its judgment in distinguishing between those income tax provisions (and regulations) that can be viewed as a part of normal tax law and those special provisions that result in tax expenditures. In general, a special provision is classified as a tax expenditure because the provision represents a departure from the taxation of economic income that is made for reasons other than administrative feasibility.

A provision traditionally has been listed as a tax expenditure by the Joint Committee staff if there is a reasonable basis for such classification and the provision results in more than a de minimis revenue loss—which in this context means a total revenue loss of at least $50 million over the five fiscal years 1995–1999. The Joint Committee staff emphasizes, however, that in the process of listing tax expenditures, no judgment is made, nor any implication intended, about the desirability of any special tax provision as a matter of public policy.

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[4] There are a few tax expenditures that have spending limits. One example is the tax credit for low-income rental housing. This credit is available only to those who have received credit allocations from State housing authorities. There are statutory limits on the total amounts of credit allocations that can be issued in any given year.

[5] Congressional Budget and Impoundment Control Act of 1974 (P.L. 93–344), sec. 3(a)(3).

If a tax expenditure were eliminated, Congress might choose to continue financial assistance through other means rather than terminate all Federal assistance for the activity. For example, the Tax Reform Act of 1986 repealed the itemized deduction for certain adoption expenses and in its place authorized a direct spending program for such expenses. If a replacement spending program were enacted, the higher revenues received as a result of the elimination of a tax expenditure might not represent a net budget gain. A replacement program could involve direct expenditures, direct loans or loan guarantees, a different form of tax expenditure, or a general reduction in tax rates. Joint Committee staff estimates of tax expenditures do not anticipate such policy responses.

The Budget Act of 1974 uses the term tax expenditure to refer to the special tax provisions that are contained in the individual and corporate income tax structure. Other Federal taxes such as excise taxes, employment taxes, and estate and gift taxes also have exceptions, exclusions, and credits, but those special tax provisions are not included in this report because they are not part of the income tax. Thus, for example, the income tax credit for selling ethanol-blended motor fuel is included, but the equivalent exemption from the motor fuels excise tax is not treated here as a tax expenditure.[6]

Individual Income Tax

Under the Joint Committee staff methodology, the normal structure of the individual income tax includes the following major components: one personal exemption for each taxpayer and one for each dependent, the standard deduction, the existing tax rate schedule, and deductions for investment and employee business expenses. Most other tax provisions can be viewed as exceptions to normal law.[7]

Personal exemptions and the standard deduction are treated as part of normal tax law because one may view these amounts as approximating the level of income below which it would be difficult for an individual or a family to obtain minimal amounts of food, clothing, and shelter. Those itemized deductions that are not necessary for the generation of income are classified as tax expenditures, but only to the extent that they exceed the standard deduction level.

General economic principles of income measurement would treat capital gains as income upon accrual, and hence their deferral under the realization doctrine as a tax expenditure. Because of the difficulties involved in making this calculation, however, the current Joint Committee staff methodology considers the full taxation

[6] In the Administration's fiscal year 1995 budget document, the Treasury identifies tax expenditures in the Unified Transfer Tax. See, Office of Management and Budget, *Analytical Perspectives Budget of the United States Government, Fiscal Year 1995*, "Tax Expenditures," 1994, pp. 75–76. Other analysts have explored applying the concept of tax expenditures to the payroll and excise taxes. See, Jonathan Barry Forman, "Would a Social Security Tax Expenditure Budget Make Sense?" *Public Budgeting and Financial Management*, 5, 1993, pp. 311–335, and Bruce F. Davie, "Tax Expenditures in the Federal Excise Tax System," *National Tax Journal*, XLVII, March, 1994, pp. 39–62.

[7] Some exceptions to normal law are tax disincentives that result in higher tax liabilities (e.g., the phase-out of the personal exemption for taxpayers above certain income levels). Tax disincentives are not shown in this report.

of capital gains upon realization as part of the normal tax structure.

The National Income and Product Accounts[8] include estimates of the imputed income that individuals receive from the services provided by owner-occupied homes and durable goods. The individual income tax provides a complete exception for this imputed income, but the Joint Committee staff does not view this exception as a tax expenditure. The measurement of imputed income for tax purposes presents administrative problems, and its exclusion from taxable income may be regarded as an administrative necessity. If all imputed income were included in adjusted gross income, it would be proper to include all mortgage interest deductions and related property tax deductions as part of the normal tax structure, since interest and property tax deductions would be allowable as a cost of producing imputed income. It would also be appropriate to allow deductions, or depreciation, for all purchases that generate imputed income (i.e., the cost of a home or car as well as maintenance expenses).

Interest provisions that are treated as tax expenditures include the deduction for mortgage interest on a principal or second residence and the permanent exemption from the imputed interest rules for certain purchases of a residence, small business or farm. Interest deductions that are treated as part of normal tax law include interest paid or accrued on indebtedness incurred in connection with a trade or business and investment interest to the extent of investment income.

The maximum 28-percent tax rate on capital gains of individuals has been treated as a tax expenditure since 1991. This maximum 28-percent rate was enacted in the Tax Reform Act of 1986, but it had no effect from 1988 through 1990 because in those years all taxable income of individuals was subject to the same 28-percent maximum statutory rate. In 1991, the maximum statutory rate on individual income was increased from 28 percent to 31 percent, and the exception for capital gains became effective. Other capital gains tax expenditure provisions include: the exclusion of capital gains from income at death; the deferral of capital gains on personal residence sales rollovers; and the exclusion of capital gains up to $125,000 on sales of personal residences for individuals age 55 or over.

There are many types of State and local government bonds and private purpose bonds the interest on which is excluded from income for Federal income tax purposes. Table 1 contains a separate tax expenditure listing for each type of bond.

Business Income Taxation

The income of corporations (other than S corporations) is generally subject to a separate tax. The corporate income tax includes a graduated tax rate schedule. The lower tax rates in the schedule are classified as a tax expenditure (as opposed to normal tax law) because they are intended to provide tax benefits to small business

[8] The accounts appear in U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, published monthly.

and, unlike the graduated individual income tax rates, are unrelated to concerns about ability of individuals to pay taxes.

Certain income of pass-through entities is not subject to the corporate income tax. The income of sole proprietorships, S corporations, and most partnerships is taxed at the individual level. The special tax rules for these pass-through entities are not viewed as tax expenditures because the tax benefits are available to any entity that chooses to organize itself and operate in the required manner in order to avoid the entity-level tax.

Nonprofit corporations that satisfy the requirements of Code section 501 also are generally exempt from corporate income tax. The tax exemption of certain nonprofit cooperative business organizations, such as trade associations, is not treated as a tax expenditure for the same reason applicable to for-profit pass-through business entities. With respect to other nonprofit organizations, such as charities, tax-exempt status is not viewed as a tax expenditure because the nonbusiness activities of such organizations generally must predominate and their unrelated business activities are subject to tax. In general, the imputed income derived from nonbusiness activities conducted by individuals or collectively by certain nonprofit organizations is outside the normal tax base. However, the ability of donors to such organizations to claim a charitable contribution deduction is a tax expenditure (because such contributions do not generate income to the donor), as is the exclusion from income granted to holders of tax-exempt financing issued by charities.

The most difficult issues in defining tax expenditures for business income of individuals and corporations relate to capital costs, which are costs not considered as allocable to income earned in a single year. It is assumed, for example, that the normal tax structure would permit straight-line cost recovery deductions for structures and equipment over their estimated useful economic lives.

The measurement of income from capital under the normal income tax structure does not take into account the effects of inflation on items such as depreciation, capital gains, and interest payments. As a result, some tax expenditure estimates will generally be larger than would be the case if the normal tax structure provided for inflation adjustments in these items.

The alternative minimum tax (AMT) and the passive activity loss rules have the effect of reducing the magnitude of the tax expenditures to which they apply. For example, the AMT reduces the value of business tax credits (for those taxpayers subject to the AMT) by not allowing the tax credits to be claimed in calculation of AMT liability. Similarly, the passive loss rules defer otherwise allowable deductions and credits from passive activities until a time when the taxpayer has passive income or disposes of the passive activity. Exceptions to the AMT and the passive loss rules are not viewed as tax expenditures by the Joint Committee staff because the effects of the exceptions are already incorporated in the estimates of related tax expenditures.

Omnibus Budget Reconciliation Act of 1993

Tax expenditures are adjusted each year to reflect newly adopted tax legislation. The Omnibus Budget Reconciliation Act of 1993

(OBRA93), signed by the President on August 4, 1993 (P.L. 103–66), contained a number of provisions that affected both individual and business income tax expenditures. Increases in the top individual and corporate income tax rates increased the value of most tax expenditures.[9]

OBRA93 extended a number of tax expenditures that had been scheduled to expire. The tax credit for low-income housing was modified and made permanent; the tax exemptions for mortgage revenue bonds and small issue industrial development bonds were made permanent; the targeted jobs tax credit was extended through December 31, 1994; the exclusion for employer-provided educational assistance benefits was extended through December 31, 1994; and the research and experimentation credit was extended through June 30, 1995. Tax expenditure estimates for the last three items reflect their scheduled expirations during fiscal year 1995.

OBRA93 extended two tax expenditures that are not listed in Table 1. The above-the-line deduction for 25 percent of the health insurance costs of self-employed individuals was extended through December 31, 1993. This item has no effect on Federal budget receipts after fiscal year 1994, and is therefore not included in Table 1. The orphan drug tax credit was extended through December 31, 1994. This item is not listed in Table 1 because the effect of this credit on Federal budget receipts during fiscal years 1995 through 1999 is below the de minimis amount. If either of these provisions is reinstated it will be included in future Joint Committee staff lists of tax expenditures.

Other provisions of OBRA93 had direct effects on specific tax expenditures, as follows:

OBRA93 provisions affecting individual income taxation

—The earned income tax credit (EITC) was significantly revised: the basic credit rates were increased and eligibility was expanded to include taxpayers without qualifying children. In addition, two supplemental EITC credits—targeting taxpayers with young children and children's health insurance premiums—were eliminated.

—The limitation on compensation taken into account for qualified retirement plan purposes was reduced to $150,000 and indexed for inflation (in increments of $10,000). This lower compensation limit reduces tax-excludable contributions to retirement plans and the associated tax expenditure.

—Targeted capital gains incentives were established for investments in certain small businesses. A deferral was provided for capital gains from sales of publicly-traded securities rolled over into specialized small business investment companies, and a 50-percent exclusion was established for qualified small business stock. These items are not listed in Table 1 because their effect on Federal budget receipts is below the de minimis amount.

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[9] Changes in the alternative minimum tax (AMT) contained in OBRA93 also affect the value of tax expenditures. As explained in the previous section, the AMT reduces the value of tax credits by not allowing them to be claimed in the calculation of AMT liability.

OBRA93 provisions affecting business income taxation

—The credit provided to section 936 businesses was restructured in a way that lowered the associated tax expenditure.

—The section 179 expensing limit available to certain business property was increased to $17,500, causing the associated tax expenditure for expensing to increase substantially.

—The recovery period for non-residential real property was lengthened, thereby reducing the tax expenditure for depreciation of buildings (other than rental housing) in excess of the alternative depreciation system.

—Bonds issued for the financing of high-speed rail facilities were removed from the private activity bond volume cap, thus making tax-exempt financing of high-speed rail facilities feasible. The revenue effect of this OBRA93 provision is reflected in a new transportation tax expenditure for the exclusion of interest on State and local government bonds for high-speed rail transportation.

—Tax incentives were provided for businesses in enterprise zones and on Indian reservations. These include expanded expensing allowances, wage credits, expanded opportunities for tax-exempt financing, and accelerated depreciation deductions. The combined effect of these incentives is reflected in a new regional economic development tax expenditure.

OBRA93 also included major changes in the tax treatment of intangible assets. However, the Joint Committee staff has decided, at this time, not to include any new tax expenditures for intangible assets because there is inadequate data to determine whether the economic lives of these assets are shorter or longer than the depreciation and amortization periods otherwise provided by the Internal Revenue Code.

Comparisons with Treasury Department

The Joint Committee staff and Treasury lists of tax expenditures differ for two reasons. First, the Treasury takes a different view of those provisions that can be considered a part of normal tax law under both the individual and business income taxes. In general, the Joint Committee staff methodology involves a narrower concept of normal tax law. The cash method of accounting provides an example. The Treasury views the cash accounting option as a part of normal tax law, but the Joint Committee staff methodology treats it as a departure from normal law that constitutes a tax expenditure.

Second, the Joint Committee staff and Treasury estimates of tax expenditures span slightly different sets of years. The Treasury's estimates cover a seven-year period—the last fiscal year, the current fiscal year, and the next five fiscal years, i.e., fiscal years 1993–1999. The Joint Committee staff estimates cover the forthcoming fiscal year and the succeeding four fiscal years, i.e., fiscal years 1995–1999.

For the past five years, the President's budget has contained a section that reviews and tabulates the estate and gift tax provisions that Treasury views as tax expenditures. The Joint Committee staff views estate and gift tax provisions as being outside of the normal income tax structure and thus omits them from its list of tax expenditures.

In some cases, two or more of the tax expenditure items in the Treasury list have been combined into a single item in the Joint Committee staff list, and vice versa. The Table 1 descriptions of some tax expenditures may also vary from the descriptions used by the Treasury.

Tax expenditure items in the Joint Committee staff list that are not viewed as tax expenditures by the Treasury are shown below:

Energy

—Expensing of tertiary injectants
—Credit for enhanced oil recovery costs

Agriculture

—Exclusion of cost-sharing payments
—Cash accounting for agriculture

Insurance companies

—Deduction of unpaid property loss reserves of property and casualty companies
—Special treatment of life insurance company reserves
—Exclusion of investment income from structured settlement amounts

Business and commerce

—Expensing of magazine circulation expenditures
—Special rules for magazine, paperback book, and record returns
—Completed contract rules
—Cash accounting, other than agriculture
—Exception from net operating loss limitations for corporations in bankruptcy
—Deferral of gain on like-kind exchanges

Employment

—Exclusion of miscellaneous fringe benefits
—Exclusion of employee awards

Health

—Exclusion of untaxed Medicare benefits: Hospital Insurance; Supplementary Medical Insurance

II. MEASUREMENT OF TAX EXPENDITURES

Tax Expenditure Estimates Generally

A tax expenditure is measured by the difference between tax liability under present law and the tax liability that would result from a recomputation of tax without benefit of the tax expenditure provision. Taxpayer behavior is assumed to remain unchanged for tax expenditure estimate purposes.[10]

The tax expenditure estimates in this report are based on Congressional Budget Office and Joint Committee staff projections of the gross income, deductions, and expenditures of individuals and corporations for calendar years 1994–1999. These projections are used to compute tax liabilities for the present-law baseline and tax liabilities for the alternative baseline that assumes that the tax expenditure provision does not exist.

Internal Revenue Service (IRS) statistics from recent tax returns are used to develop projections of the tax credits, deductions, and exclusions that will be claimed under the present-law baseline. These IRS statistics show the actual usage of the various tax expenditure provisions. In the case of some tax expenditures, such as the earned income tax credit, there is evidence that taxpayers are not claiming all of the benefits to which they are entitled. In contrast, some tax expenditures may include sizeable fraudulent claims. The tax expenditure estimates in this report are based on projections of actual claims under the various tax provisions, not the tax benefits to which taxpayers are entitled.

Some tax expenditure estimates are based partly on statistics for income, deductions, and expenses for prior years. Accelerated depreciation is an example. Estimates for this tax expenditure are based on the difference between tax depreciation deductions under present law and the deductions that would have been claimed in this year if investments in this and all prior years had been depreciated using the alternative ("normal law") depreciation schedule.

Each tax expenditure is estimated separately, under the assumption that all other tax expenditures remain in the tax code. If two or more tax expenditures were estimated simultaneously, the total change in tax liability could be smaller or larger than the sum of the amounts shown for each item separately, as a result of interactions among the tax expenditure provisions.

Year-to-year differences in the estimates for each tax expenditure reflect changes in tax law, including phaseouts of tax expenditure provisions and changes that alter the definition of the normal tax structure, such as the tax rate schedule, the personal exemption amount, and the standard deduction. Some of the estimates for this tax expenditure budget may differ from estimates made in previous years because of changes in law and economic conditions, the availability of better data, and improved estimating techniques.

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[10] An alternative way to measure tax expenditures is to express their values in terms of outlay equivalents. An outlay equivalent is the dollar size of a direct spending program that would provide taxpayers with net benefits that would equal what they now receive from a tax expenditure. The Treasury presents estimates of outlay equivalents in the President's budget in addition to the method used by the Joint Committee staff.

Tax Expenditures versus Revenue Estimates

A tax expenditure estimate is not the same as a revenue estimate for the repeal of the tax expenditure provision for two reasons. First, tax expenditure estimates do not incorporate any changes in taxpayer behavior, whereas revenue estimates incorporate the effects of the behavioral changes that are anticipated to occur in response to the repeal of a tax provision. Second, tax expenditure estimates are concerned with changes in the tax liabilities of taxpayers. Since the tax expenditure focus is on tax liabilities as opposed to Federal government tax receipts, there is no concern for the timing of tax payments. Revenue estimates are concerned with changes in Federal tax receipts which are affected by the timing of tax payments.

If a tax expenditure provision were repealed, it is likely that the repeal would be made effective at the beginning of a calendar year. In this case, the revenue estimate for repeal would show a smaller revenue gain in the first fiscal year than in subsequent years, because the repeal would be occurring after the start of the government's fiscal year. The revenue estimate might also reflect some delay in the timing of the revenue gains as a result of the taxpayer tendency to postpone or forego changes in tax withholding and estimated tax payments.

III. TAX EXPENDITURE ESTIMATES

Tax expenditures are grouped in Table 1 in the same functional categories as outlays in the Federal budget. Estimates are shown separately for individuals and corporations. Those tax expenditures that do not fit clearly into any single budget category have been placed in the most appropriate category.

Several of the tax expenditure items involve small amounts of revenue, and those estimates are indicated in Table 1 by footnote 1. For each of these items, the footnote means that the tax expenditure is less than $50 million in the fiscal year.

Table 2 presents tax return information for each of nine income classes on the number of all returns filed, the number of all returns and taxable returns with itemized deductions, and the amount of tax liability.

Table 3 provides distributional estimates by income class for some of the tax expenditures that affect individual taxpayers. Not all tax expenditures that affect individuals are shown in this table because of the difficulty in making reliable estimates of the income distribution of items that do not appear on tax returns under present law.

Tables 1, 2, and 3 are based on the Federal tax laws as they existed on December 31, 1993.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1995–1999

[Billions of dollars]

Function	Corporations					Individuals					Total 1995–1999
	1995	1996	1997	1998	1999	1995	1996	1997	1998	1999	
National defense											
Exclusion of benefits and allowances to Armed Forces personnel	....	....	....	....	....	2.1	2.1	2.1	2.2	2.3	10.8
Exclusion of military disability benefits	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.5
International affairs											
Exclusion of income earned abroad by U.S. citizens	....	....	....	....	....	1.6	1.6	1.7	1.8	1.9	8.6
Exclusion of certain allowances for Federal employees abroad	....	....	....	....	....	0.2	0.2	0.2	0.2	0.2	1.0
Exclusion of income of foreign sales corporations (FSCs)	1.4	1.5	1.5	1.5	1.6	....	....	....	....	....	7.5
Deferral of income of controlled foreign corporations	1.1	1.1	1.1	1.2	1.2	....	....	....	....	....	5.7
Inventory property sales source rule exception	3.5	3.6	3.7	3.7	3.8	....	....	....	....	....	18.3
Interest allocation rules exception for certain nonfinancial institutions	0.2	0.2	0.2	0.2	0.2	....	....	....	....	....	1.0
General science, space, and technology											
Expensing of research and development expenditures	1.0	0.5	0.2	0.1	0.1	(1)	(1)	(1)	(1)	(1)	2.1
Energy											
Expensing of exploration and development costs:											
Oil and gas	0.5	0.5	0.5	0.5	0.5	(1)	(1)	(1)	(1)	(1)	2.5
Other fuels	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.3
Excess of percentage over cost depletion:											
Oil and gas	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	2.0
Other fuels	0.2	0.2	0.2	0.2	0.2	(1)	(1)	0.1	0.1	0.1	1.4
Credit for enhanced oil recovery costs	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.4
Nonconventional fuels production credit	0.8	0.9	0.9	0.9	0.9	0.3	0.3	0.3	0.3	0.3	5.8
Alcohol fuel credits (2)	(1)	(1)	(1)	(1)	(1)	....	....	....	....	....	0.2

Exclusion of interest on State and local government industrial development bonds for energy production facilities	(1)	(1)	(1)	(1)	(1)	0.1	0.1	0.1	0.1	0.1	0.9
Expensing of tertiary injectants	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Exclusion of energy conservation subsidies provided by public utilities	....	0.1	0.2	0.3	0.3	(1)	(1)	(1)	(1)	(1)	1.0
Credit for investments in solar and geothermal energy facilities	0.0	0.1	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	0.4
Credits for electricity production from wind and biomass	(1)	(1)	(1)	0.1	0.1	(1)	(1)	(1)	(1)	(1)	0.3
Deductions and credits for clean-fuel vehicles and refueling property	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.3
Natural resources and environment											
Expensing of exploration and development costs, nonfuel minerals	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.3
Excess of percentage over cost depletion, nonfuel minerals	0.2	0.2	0.2	0.2	0.2	(1)	(1)	0.1	0.1	0.1	1.4
Investment credit and 7-year amortization for reforestation expenditures	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Expensing of multiperiod timber-growing costs	0.4	0.4	0.5	0.5	0.5	(1)	(1)	(1)	0.1	0.1	2.6
Exclusion of interest on State and local government sewage, water, and hazardous waste facilities bonds	0.2	0.2	0.2	0.2	0.2	0.5	0.5	0.5	0.5	0.5	3.2
Investment tax credit for rehabilitation of historic structures	0.1	0.1	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	0.5
Special rules for mining reclamation reserves	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Agriculture											
Expensing of soil and water conservation expenditures	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Expensing of fertilizer and soil conditioner costs	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1	0.3
Expensing of the costs of raising dairy and breeding cattle	(1)	(1)	(1)	(1)	(1)	0.1	0.1	0.1	0.1	0.1	0.7
Exclusion of cost-sharing payments	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Exclusion of cancellation of indebtedness income of farmers	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.3
Cash accounting for agriculture	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	1.3

Footnotes at end of table.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1995–1999—Continued

[Billions of dollars]

Function	Corporations 1995	Corporations 1996	Corporations 1997	Corporations 1998	Corporations 1999	Individuals 1995	Individuals 1996	Individuals 1997	Individuals 1998	Individuals 1999	Total 1995–1999
Commerce and housing											
Financial institutions:											
Bad-debt reserves of financial institutions	0.1	0.1	0.1	0.1	0.1	....	....	....	....	....	0.5
Exemption of credit union income	0.7	0.7	0.7	0.8	0.8	....	....	....	....	....	3.7
Insurance companies:											
Exclusion of investment income on life insurance and annuity contracts	0.8	0.9	1.0	1.1	1.2	10.3	11.5	12.4	13.3	14.3	66.8
Exclusion of investment income from structured settlement amounts	([1])	([1])	([1])	([1])	([1])	....	....	....	....	....	([1])
Small life insurance company taxable income adjustment	0.1	0.1	0.1	0.1	0.1	....	....	....	....	....	0.5
Special treatment of life insurance company reserves	2.1	2.3	2.5	2.7	2.9	....	....	....	....	....	12.5
Deduction of unpaid property loss reserves for property and casualty insurance companies	1.6	1.8	1.9	2.1	2.3	....	....	....	....	....	9.7
Special alternative tax on small property and casualty insurance companies	([1])	([1])	([1])	([1])	([1])	....	....	....	....	....	([1])
Tax exemption for certain insurance companies	([1])	([1])	([1])	([1])	([1])	....	....	....	....	....	([1])
Special deduction for Blue Cross and Blue Shield companies	0.3	0.3	0.1	0.1	0.1	....	....	....	....	....	0.9
Housing:											
Deductibility of mortgage interest on owner-occupied residences	....	....	....	....	....	53.5	56.8	60.2	63.9	67.8	302.1
Deductibility of property tax on owner-occupied homes	....	....	....	....	....	13.7	14.5	15.3	16.2	17.1	76.8
Deferral of capital gains on sales of principal residence	....	....	....	....	....	14.8	15.3	15.9	16.4	17.0	79.4

Exclusion of capital gains on sales of principal residences for persons age 55 and over ($125,000 exclusion)	....	....	....	....	....	4.9	5.1	5.3	5.5	5.7	26.5
Exclusion of interest on State and local government bonds for owner-occupied housing	0.5	0.5	0.5	0.4	0.4	1.4	1.4	1.4	1.3	1.3	9.0
Exclusion of interest on State and local government bonds for rental housing	0.2	0.2	0.2	0.2	0.2	0.7	0.7	0.7	0.6	0.6	4.3
Depreciation of rental housing in excess of alternative depreciation system	1.0	1.0	0.9	0.8	0.7	0.7	0.6	0.6	0.5	0.5	7.3
Low-income housing tax credit	0.8	0.9	1.0	1.2	1.3	1.4	1.7	1.9	2.2	2.4	14.8
Other business and commerce:											
Maximum 28% tax rate on long-term capital gains	....	....	....	....	....	9.1	10.5	11.3	12.6	13.9	57.4
Depreciation of buildings other than rental housing in excess of alternative depreciation system	3.5	3.2	2.7	2.1	1.5	1.4	1.3	1.1	0.9	0.6	18.5
Depreciation of equipment in excess of alternative depreciation system	19.9	19.9	19.6	19.1	19.2	5.7	5.7	5.6	5.4	5.5	125.4
Expending of up to $17,500 of depreciable business property	0.9	0.7	0.5	0.3	0.1	0.6	0.4	0.3	0.1	(1)	4.0
Exclusion of capital gains at death	....	....	....	....	....	12.7	14.0	15.4	17.1	18.3	77.5
Carryover basis of capital gains on gifts	....	....	....	....	....	1.4	1.5	1.5	1.6	1.7	7.7
Amortization of business startup costs	(1)	(1)	(1)	(1)	(1)	0.2	0.2	0.2	0.2	0.2	1.1
Reduced rates for first $10,000,000 of corporate taxable income	3.9	4.1	4.3	4.5	4.7	....	....	....	....	....	21.7
Permanent exemption from imputed interest rules	(1)	(1)	(1)	(1)	(1)	0.2	0.2	0.2	0.2	0.2	1.1
Expensing of magazine circulation expenditures	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Special rules for magazine, paperback book, and record returns	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Deferral of gain on non-dealer installment sales	0.4	0.4	0.4	0.5	0.5	0.3	0.3	0.3	0.4	0.4	3.9
Completed contract rules	0.2	0.2	0.2	0.2	0.2	(1)	(1)	(1)	(1)	(1)	1.0
Cash accounting, other than agriculture	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1	0.1	0.5
Exclusion of interest on State and local government small-issue industrial development bonds	0.1	0.1	0.1	0.1	0.1	0.4	0.3	0.3	0.3	0.2	1.9
Deferral of gain on like-kind exchanges	0.4	0.5	0.5	0.5	0.6	0.2	0.3	0.3	0.3	0.4	4.1

Footnotes at end of table.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1995–1999—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 1995–1999
	1995	1996	1997	1998	1999	1995	1996	1997	1998	1999	
Exception from net operating loss limitations for corporations in bankruptcy proceedings	0.4	0.4	0.5	0.5	0.5	....	....	....	....	....	2.2
Deferral of gains from sale of broadcasting facilities to minority-owned businesses	0.1	0.1	0.1	0.1	0.1	....	....	....	....	....	0.5
Transportation											
Deferral of tax on capital construction funds of shipping companies	0.1	0.1	0.1	0.1	0.1	....	....	....	....	....	0.4
Employer-paid transportation benefits	....	....	....	....	....	1.9	2.1	2.2	2.3	2.4	10.9
Exclusion of interest on State and local government bonds for high-speed rail	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Community and regional development											
Investment credit for rehabilitation of structures, other than historic structures	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.3
Exclusion of interest on State and local government bonds for private airports, docks, and mass-commuting facilities	0.2	0.2	0.2	0.3	0.3	0.6	0.7	0.7	0.8	0.8	4.9
Regional economic development tax incentives: empowerment zones, enterprise communities, and Indian investment incentives	0.2	0.2	0.2	0.3	0.3	0.1	0.2	0.3	0.3	0.3	2.5
Education, training, employment, and social services											
Education and training:											
Exclusion of scholarship and fellowship income	....	....	....	....	....	0.7	0.7	0.8	0.8	0.8	3.8
Parental personal exemption for students age 19 to 23	....	....	....	....	....	0.9	0.9	0.9	0.9	0.9	4.6
Exclusion of interest on State and local government student loan bonds	0.1	0.1	(1)	(1)	(1)	0.2	0.2	0.1	0.1	0.1	1.0

Exclusion of interest on State and local government bonds for private nonprofit educational facilities	0.2	0.2	0.2	0.2	0.2	0.6	0.6	0.6	0.7	0.7	4.2
Deductibility of charitable contributions for educational institutions	0.5	0.5	0.5	0.5	0.5	2.0	2.1	2.2	2.3	2.4	13.2
Exclusion of interest on educational savings bonds	....	....	....	....	....	0.1	0.1	0.2	0.2	0.3	0.9
Exclusion for employer-provided education assistance benefits	0.3	....	....	....	....	....	....	....	....	....	0.3
Employment:											
Exclusion of employee meals and lodging (other than military)	....	....	....	....	....	0.6	0.7	0.7	0.7	0.8	3.5
Special tax provisions for employee stock ownership plans (ESOPs)	0.9	1.0	1.1	1.2	1.2	(1)	(1)	(1)	(1)	(1)	5.4
Exclusion of benefits provided under cafeteria plans (3)	....	....	....	....	....	3.8	4.4	5.0	5.7	6.5	25.4
Exclusion of rental allowances for minister's homes	....	....	....	....	....	0.3	0.3	0.3	0.3	0.3	1.5
Exclusion of miscellaneous fringe benefits	....	....	....	....	....	4.9	5.2	5.5	5.8	6.2	27.5
Exclusion of employee awards	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.6
Exclusion of income earned by voluntary employees' beneficiary associations	....	....	....	....	....	0.5	0.5	0.5	0.6	0.6	2.7
Targeted jobs tax credit	0.2	0.1	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.4
Social services:											
Deductibility of charitable contributions, other than for education and health	0.4	0.4	0.4	0.4	0.4	13.9	14.7	15.4	16.1	16.9	79.0
Credit for child and dependent care expenses	....	....	....	....	....	2.7	2.8	2.8	2.9	3.0	14.2
Exclusion for employer-provided child care (4)	....	....	....	....	....	0.6	0.7	0.8	0.9	1.0	4.0
Exclusion for certain foster care payments	....	....	....	....	....	(1)	(1)	(1)	(1)	(1)	0.1
Expensing of costs for removing architectural barriers	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Credit for disabled access expenditures	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Health											
Exclusion of employer contributions for medical insurance premiums and medical care (5)	....	....	....	....	....	45.8	49.9	53.8	57.9	62.3	269.7

Footnotes at end of table.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1995–1999—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 1995–1999
	1995	1996	1997	1998	1999	1995	1996	1997	1998	1999	
Exclusion of medical care and CHAMPUS health insurance for military dependents	....	....	....	....	....	0.4	0.5	0.5	0.5	0.5	2.4
Deductibility of medical expenses	....	....	....	....	....	4.1	4.5	5.0	5.5	6.0	25.0
Exclusion of interest on State and local government bonds for private nonprofit hospital facilities	0.4	0.4	0.5	0.5	0.5	1.2	1.3	1.4	1.4	1.5	9.2
Deductibility of charitable contributions to health organizations	0.3	0.3	0.3	0.4	0.4	1.4	1.5	1.6	1.6	1.7	9.6
Medicare											
Exclusion of untaxed medicare benefits:											
Hospital insurance	....	....	....	....	....	8.0	9.2	10.8	12.6	14.8	55.3
Supplementary medical insurance	....	....	....	....	....	5.1	6.1	7.3	8.7	10.4	37.6
Income security											
Exclusion of workers' compensation benefits	....	....	....	....	....	3.9	4.0	4.2	4.4	4.6	21.0
Exclusion of special benefits for disabled coal miners	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.4
Exclusion of cash public assistance benefits	....	....	....	....	....	0.5	0.5	0.6	0.6	0.7	2.8
Net exclusion of pension contributions and earnings:											
Employer plans	....	....	....	....	....	69.4	73.5	78.0	82.8	87.9	391.6
Individual retirement plans	....	....	....	....	....	8.4	8.7	9.2	9.7	10.2	46.2
Keogh plans	....	....	....	....	....	3.1	3.3	3.5	3.7	3.9	17.8
Exclusion of other employee benefits:											
Premiums on group term life insurance	....	....	....	....	....	2.0	2.0	2.1	2.2	2.2	10.5
Premiums on accident and disability insurance	....	....	....	....	....	0.2	0.2	0.2	0.2	0.2	1.0
Exclusion of employer-provided death benefits	....	....	....	....	....	(1)	(1)	(1)	(1)	(1)	0.2
Additional standard deduction for the blind and the elderly	....	....	....	....	....	1.9	2.0	2.1	2.2	2.4	10.6
Tax credit for the elderly and disabled	....	....	....	....	....	(1)	(1)	(1)	(1)	(1)	0.1
Deductibility of casualty and theft losses	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.5
Earned income tax credit (EITC) (6)	....	....	....	....	....	3.5	3.9	4.2	4.4	4.6	20.5

Social security and railroad retirement											
Exclusion of untaxed social security and railroad retirement benefits	....	....	....	....	....	23.1	24.1	25.1	26.1	27.1	125.5
Veterans' benefits and services											
Exclusion of veterans' disability compensation	....	....	....	....	....	1.6	1.6	1.7	1.7	1.8	8.4
Exclusion of veterans' pensions	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.5
Exclusion of GI bill benefits	....	....	....	....	....	0.1	0.1	0.1	0.1	0.1	0.5
Exclusion of interest on State and local government bonds for veterans' housing	(1)	(1)	(1)	(1)	(1)	0.1	0.1	0.1	0.1	0.1	0.4
General purpose fiscal assistance											
Exclusion of interest on public purpose State and local government debt	3.2	3.3	3.5	3.7	3.8	9.5	10.0	10.5	11.0	11.5	70.1
Deduction of nonbusiness State and local government income and personal property taxes	....	....	....	....	....	24.7	26.2	27.7	29.3	31.0	139.0
Tax credit for section 936 income	3.7	3.8	4.0	4.1	4.2	....	....	....	....	....	19.7
Interest											
Deferral of interest on savings bonds	....	....	....	....	....	1.3	1.4	1.5	1.6	1.7	7.3

Footnotes to Table 1:

(1) Positive tax expenditure of less than $50 million.

(2) In addition, the 5.4-cents-per-gallon exemption from excise tax for alcohol fuels results in a reduction in excise tax receipts, net of income tax effect, of $0.6 billion per year in fiscal year 1995, and $0.7 billion per year in fiscal years 1996 through 1999.

(3) Estimate includes amounts of employer-provided health insurance purchased through cafeteria plans and employer-provided child care purchased dependent care flexible spending accounts. These amounts are also included in other line items in this table.

(4) Estimate includes employer-provided child care purchased through dependent care flexible spending accounts.

(5) Estimate includes employer-provided health insurance purchased through cafeteria plans.

(6) The figures in the table show the effect of the EITC on receipts. The increase in outlays is: $18.6 billion in 1995, $20.6 billion in 1996, $21.6 billion in 1997, $22.2 billion in 1998, and $22.9 billion in 1999.

NOTE.—Details may not add to totals due to rounding.

Source: Joint Committee on Taxation.

Table 2.—Distribution by Income Class of All Returns, Taxable Returns, Itemized Returns, and Tax Liability at 1994 Rates and 1994 Law and 1994 Income Levels[1]

[Money amounts in millions of dollars, returns in thousands]

Income class (thousands)[2]	All returns[3]	Taxable returns	Itemized returns		Tax liability
			Total	Taxable	
Below $10	24,145	2,467	178	16	−$4,469
$10 to $20	25,012	10,308	957	413	756
$20 to $30	20,784	14,456	2,254	1,617	20,671
$30 to $40	16,698	14,578	3,579	3,237	37,145
$40 to $50	11,941	11,465	4,163	3,992	41,337
$50 to $75	18,006	17,848	10,232	10,133	101,078
$75 to $100	7,486	7,446	5,864	5,851	75,339
$100 to $200	5,377	5,351	4,763	4,747	105,129
$200 and over	1,417	1,414	1,309	1,306	164,438
Total	**130,866**	**85,333**	**33,299**	**31,312**	**$541,424**

[1] Tax law as in effect on January 1, 1994, is applied to the 1994 level and sources of income and their distribution among taxpayers. Excludes individuals who are dependents of other taxpayers.

[2] The income concept used to place tax returns into classes is adjusted gross income (AGI) plus: (1) tax-exempt interest, (2) employer contributions for health plans and life insurance, (3) employer share of FICA tax, (4) workers' compensation, (5) nontaxable Social Security benefits, (6) insurance value of Medicare benefits, (7) corporate income tax liability passed on the stockholders, (8) alternative minimum tax preference items, and (9) excluded income of U.S. citizens living abroad.

[3] Includes filing and nonfiling units. Filing units include all taxable and nontaxable returns. Nonfiling units include individuals with income that is exempt from Federal income taxation (e.g., transfer payments, interest from tax-exempt bonds, etc.).

NOTE.—Details may not add to totals due to rounding.

Source: Joint Committee on Taxation.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 1994 Rates and 1994 Income Levels[1]

[Money amounts in millions of dollars, returns in thousands]

Income class (thousands)[2]	Medical expense deduction		Real estate tax deduction	
	Returns	Amount	Returns	Amount
Below $10	15	$3	14	$1
$10 to $20	247	82	383	50
$20 to $30	742	293	1,478	226
$30 to $40	1,021	470	2,704	521
$40 to $50	896	502	3,480	824
$50 to $75	1,312	1,038	9,071	2,905
$75 to $100	413	638	5,400	2,889
$100 to $200	206	502	4,391	3,525
$200 and over	26	265	1,144	2,119
Total	**4,877**	**$3,793**	**28,064**	**$13,061**

Footnotes at end of table.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 1994 Rates and 1994 Income Levels [1]—Continued

[Money amounts in millions of dollars, returns in thousands]

Income class (thousands) [2]	State and local income and personal property tax deduction		Charitable contributions deduction	
	Returns	Amount	Returns	Amount
Below $10	43	$1	79	$6
$10 to $20	482	12	1,024	138
$20 to $30	1,683	110	2,479	368
$30 to $40	3,246	434	3,727	720
$40 to $50	3,917	809	4,365	1,008
$50 to $75	9,618	3,481	8,950	3,277
$75 to $100	5,403	4,094	4,217	2,402
$100 to $200	4,336	5,962	3,269	3,226
$200 and over	1,169	8,832	1,026	5,397
Total	**29,896**	**$23,734**	**29,136**	**$16,542**

Footnotes at end of table.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 1994 Rates and 1994 Income Levels [1]—Continued

[Money amounts in millions of dollars, returns in thousands]

Income class (thousands) [2]	Child care credit		Earned income credit [3]	
	Returns	Amount	Returns	Amount
Below $10	2	(4)	6,084	$5,153
$10 to $20	424	$148	6,236	9,763
$20 to $30	877	403	4,950	4,194
$30 to $40	961	411	707	478
$40 to $50	818	328	59	39
$50 to $75	1,682	724	23	20
$75 to $100	861	402	(4)	(5)
$100 to $200	434	213	...	...
$200 and over	63	32	...	...
Total	**6,121**	**$2,662**	**8,059**	**$19,647**

Footnotes at end of table.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 1994 Rates and 1994 Income Levels [1]—Continued

[Money amounts in millions of dollars, returns in thousands]

Income class (thousands) [2]	Untaxed Social Security and Railroad Retirement benefits		Additional standard deduction for the elderly and blind	
	Returns	Amount	Returns	Amount
Below $10	277	$63	23	$3
$10 to $20	4,943	2,412	660	73
$20 to $30	5,754	5,438	2,111	283
$30 to $40	4,567	5,995	2,136	325
$40 to $50	2,948	4,381	1,958	375
$50 to $75	3,089	3,251	1,980	437
$75 to $100	1,078	373	560	182
$100 to $200	945	200	302	111
$200 and over	263	78	43	17
Total	**23,864**	**$22,191**	**9,773**	**$1,806**

Footnotes at end of table.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 1994 Rates and 1994 Income Levels [1]—Continued

[Money amounts in millions of dollars, returns in thousands]

Income Class (thousands) [2]	Mortgage interest deduction	
	Returns	Amount
Below $10	31	$8
$10 to $20	452	186
$20 to $30	1,520	781
$30 to $40	2,687	1,938
$40 to $50	3,403	3,213
$50 to $75	8,883	11,245
$75 to $100	5,130	11,201
$100 to $200	4,024	14,131
$200 and over	1,013	8,457
Total	**27,142**	**$51,161**

Footnotes to Table 3:

[1] Excludes individuals who are dependents of other taxpayers.

[2] The income concept used to place tax returns into classes is adjusted gross income (AGI) plus: (1) tax-exempt interest, (2) employer contributions for health plans and life insurance, (3) employer share of FICA tax, (4) workers' compensation, (5) nontaxable Social Security benefits, (6) insurance value of Medicare benefits, (7) corporate income tax liability passed on to stockholders, (8) alternative minimum tax preference items, and (9) excluded income of U.S. citizens living abroad.

[3] Includes the refundable portion of the earned income credit. Excludes the credit for child medical insurance premiums.

[4] Less than 500 returns.

[5] Less than $500,000.

NOTE.—Details may not add to totals due to rounding.

Source: Joint Committee on Taxation.